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NOTES

COST OF PRODUCTION AS A BASIS OF TARIFF REVISION

Economists seem little disposed to criticize unfavorably the present effort making for revision of the tariff based upon an analysis of foreign costs of production—possibly because they believe that those manufacturers, business men, and consumers generally, who are today paying the price of excessive protection to our great industries, have a real grievance, and are largely justified in seeking relief; possibly because they believe that revision in accordance with any principle whatever is bound to remove, or in a degree mitigate, some of our present-day tariff “abominations;” and, finally, because they feel that the concession on the part of our legislators in Washington that revision can be undertaken in accordance with some underlying principle, rather than with a view single to satisfying local or special interests, is a most important concession, opening the way in the future to a scientific handling of our tariff schedules. Once this concession is made, the question what principle should be observed becomes at least an open one, and one which economists are professionally bound to answer. Whatever principle may be advocated, however, it seems perfectly obvious that it will not involve any analysis of foreign costs of production, and that no such analysis can provide a basis for scientific revision of the tariff.

The doctrine that tariff rates should be adjusted to offset higher costs of production in some industries is as old as the doctrine of protection itself. Our infant industries have been accorded protection to offset the high costs incident to the initial stages of their development. When this period has been passed a continuance of protection has been sought and granted avowedly in the interests of labor, to protect the American workman’s high rate of wages, and to insure the maintenance of his high standard of living against competition with the “cheap” labor of Europe. Again, it has been rightly or wrongly conceived that the building-up of certain industries is desirable to round our industrial development, or to provide against the contingency of war, or, as in the case of

shipbuilding, as a means of developing foreign trade, and the higher costs in these industries have been regarded in fixing tariff rates.

Very generally the demand for protection has rested upon the high cost of labor in the United States, and as a special plea for a single industry or for a group of industries, the argument is economically sound, granting the necessity for fostering by legislative enactment any industry whatever. It may be observed, however, that the high cost of labor encountered as an obstacle to their development by these industries is not absolute labor cost in foreign countries, but the relatively greater productivity and earning power of domestic labor in unprotected occupations out of which labor must be drawn if the protected industry is to be nurtured. The assumption that wage-earners, even those engaged in the protected industries, derive any real benefit from protection is of course quite erroneous. The chief result of such regulative legislation has been an artificial industrial grouping of our population, the maintenance of which is largely dependent upon the continuance of the legislation to protect the vested interests of labor and capital. The great mass of American labor, notoriously that engaged in agriculture, is not only unprotected, but is taxed through the general enhancement of prices, in order that certain relatively small groups of industrial workers may continue in their present employment without suffering any impairment of their present standard of living. Clearly, the continuance of certain protected manufacturing industries at the expense of the unprotected and of agriculture, is conditioned upon their being kept upon a basis of competition, not with the foreign producer, but with the unprotected industries at home. Absolute costs of production abroad are not the determining factors of international trade, and need not be regarded in adjustment of tariff schedules.

As long ago as 1888 Congress instructed the Department of Labor

to ascertain . . . the cost of producing articles at the time dutiable in the United States, in leading countries where such articles are produced . . . showing the different elements of cost . . . including wages.

Mr. E. R. L. Gould, speaking of the work of the commission appointed to carry out this instruction, adverts to the fact that Commissioner Carroll D. Wright had in discussing the scientific basis of tariff legislation "developed the thesis that, admitting

the protective principle, a tariff, to be fair and just to all parties, must be based upon the comparative cost of production in competing countries." It appears, according to Mr. Gould, that this idea was "not foreign to the tastes of Mr. Mills and his associates on the Ways and Means Committee." It is pointed out, however, that "a tariff based strictly upon comparative costs of production was not considered, especially by business men, an available scheme," and that the McKinley bill was, in fact, introduced and passed before the commission had completed its investigation, and quite independently of its findings. At the present time those occupied with the task of preparing the way for tariff revision, and business men generally, seem to have been converted to the belief that such a scheme is an available one.

Why a tariff based upon foreign costs should be regarded as essentially fair and just to all concerned is difficult to comprehend, unless a condition of commercial isolation and of complete embargo upon all foreign trade is regarded as an ideal state. Even granted that it is so, there would seem to be no occasion for investigating costs of production in foreign countries, since the end sought may equally well be attained without recourse to such data. In the past the price at which the foreign producer could lay down an article in our market has been regarded as a sufficient guide in adjusting tariff rates, and as a sufficient index of foreign cost. Price would seem, indeed, to be a perfectly good index of the amount of protection required in any given case to keep any commodity out of our market, without any analysis of cost in terms of wages and prices of materials in foreign countries. As such an index price has the prodigious advantage that it can be ascertained, while cost of production is hopelessly elusive and difficult of determination.

As a basis of tariff revision foreign costs present obvious difficulties. For example, what cost ought to prevail? The cost is not the same in any two foreign countries. Within any given country the cost varies from community to community, and from establishment to establishment. Assuming, however, that the cost has been ascertained for a country or an establishment, it is not determined for all time, but varies from year to year. Any commission which should undertake to determine foreign costs would find its task one which would certainly occupy it for a considerable period of time. Our commissions in the past, and similar commissions in Germany

have expended years in their painstaking investigations of a few selected industries, and the result of their work has been admittedly inconclusive as a basis of tariff revision. Should Congress have the patience to await the finding of such a commission—which it has shown little disposition in the past to do—additional delay must attach to the formulation of legislation. In the meantime the processes and conditions of production might have undergone far-reaching modification necessitating a complete revision of the scheme of costs.

A still more serious difficulty has always been encountered by our government agencies, consuls, and commissioners, whenever their investigation has been admittedly with a view to tariff revision, as has been the case in the recent investigation of foreign costs. Congress seems rather naïvely to have assumed that its authorized agents had only to prefer a request, and foreign manufacturers would open their books for inspection. This assumption has been amply proved unwarranted. The necessary data cannot be obtained upon which to base an estimate.

The government has already expended considerable sums of money in its fruitless investigation, and if the present theory of revision obtains in the future still larger expenditures may be anticipated. Were the ascertainment of these foreign costs at all essential as a condition of tariff revision, these expenditures might be justified; but they are not. Our tariff commission is not properly concerned with the condition of labor, or the earnings of capital abroad. It might much more properly base its recommendations upon a consideration of domestic conditions. As already observed the price at which the foreign product can be laid down in our market is a sure index of the amount of protection required to keep it out of our market. To seek to get behind that price, and to analyze costs of production in foreign countries is an entirely gratuitous waste of energy and of public revenues. These costs are fluctuating, multifarious, and at any given time unascertainable by any practicable method. The fundamental fallacy underlying the present agitation seems to lie in the assumption that international trade is determined by absolute rather than relative costs of production—an assumption which no economist will grant.

Moreover, the substitution of the word *all* for *some* in the present agitation for revision is especially significant. Protection has always grounded its appeal for support upon the contention that

the interests of all were in some way conserved by protection of the few; but the effort to bring all interests under the protective system itself has never taken quite the form in our tariff history that it is taking today.

In the economic development of a country protection of some industries for a longer or shorter period on the ground that their development somehow involves in a peculiar sense the general welfare may be condoned, but the effort to afford protection to all industries for an indefinite period by so adjusting the tariff to foreign costs of production as to place all upon a "competing basis" with the foreign producer is little less than a prostitution of our revenue service.

It may further be observed that the theory, if it could be carried into practice, would consummate an entire suspension of international trade, since it is based upon the idea that the tariff ought to offset all differences in costs, not in some but in all industries. Such a principle clearly carries the policy of protection to an extreme which few would sanction and defeats the purpose of the tariff as a source of revenue.

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WASHINGTON NOTES

THE INCREASE OF FREIGHT RATES

VETOING THE CENSUS BILL

DANGER AT THE TREASURY

THE WALL PAPER DECISION

THE COTTON CONFERENCE

LOANS TO BANK EXAMINERS

In response to a resolution of the House of Representatives adopted January 15 the Interstate Commerce Commission has prepared its first official summary of the notable freight-rate changes occurring since the adoption of the Hepburn amendment to the Act to Regulate Commerce (H. Doc. No. 1412, 60th Cong., 2d sess.). The commission points out that to summarize all rate changes occurring since the time mentioned would imply a comparison of some 150,000,000 rate items with a like number of items previously filed, but it affords data as to the chief changes that have taken place in rates on staple articles. On coal, rates have been advanced 5 cents per ton from the Pennsylvania, Maryland,